1999

annual report

ALBERTA MUNICIPAL FINANCING CORPORATION

101-01501/

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DIRECTORS

BOARD OF DIRECTORS

Appointed
D.H. Bader
J.M. Drinkwater
P.A. Kruselnicki
A.J. McPherson
R.A. Splane

Elected
D.J. Dyck
- Representing Class B shareholders

G.H. Sherwin
- Representing Class C shareholders

R.T. Feddema
- Representing Class D shareholders

D.O. Lussier
- Representing Class E shareholders

OFFICERS

A.J. McPherson
- President & Chairman of the Board

G.H. Sherwin
- Vice-President

T.S. Stroich
- General Manager & Treasurer

M.B. Neuman
- Assistant General Manager

J. Hui
- Secretary & Assistant Treasurer

For more information, visit our website or contact the Alberta Municipal Financing Corporation Office

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Organization

Mission

To provide local authorities within the Province with funding for capital projects at the lowest possible cost, consistent with the viability of the Alberta Municipal Financing Corporation.

Authority

The Alberta Municipal Financing Corporation is a non-profit Corporation established in 1956 under the authority of the Alberta Municipal Financing Corporation Act, Chapter A-33, Revised Statutes of Alberta 1980, as amended.

Shareholders

The authorized stock of the Corporation consists of the following shares with a par value of $10 each:

- 4,500 Class A, available only to the Crown
- 1,000 Class B, available only to municipalities (defined as including municipal districts, counties, improvement districts and special areas) and to approved hospitals, hospital districts and regional health authorities
- 750 Class C, available only to cities
- 750 Class D, available only to towns and villages
- 500 Class E, available only to school districts and divisions, universities and colleges.

The business of the Corporation is administered by a Board of Directors. The Lieutenant Governor in Council appoints up to five directors to represent the Class A common shareholder. Each of the other four classes of shareholders elects one director to the Board.

Loans

Maximum terms of loans for various projects are prescribed in the Corporation's by-laws relating to the terms and conditions for lending money to shareholders. Funds are advanced to borrowers in exchange for debentures.

Financing

The Corporation issues various debt obligations to obtain the funds necessary to finance loan requirements. These obligations of the Corporation carry the unconditional guarantee of the Province of Alberta.

President's Report

February 18, 2000

It is my privilege and pleasure to present to our shareholders the Annual Report of the Alberta Municipal Financing Corporation for the year ended December 31, 1999, and to review its activities for the past year.

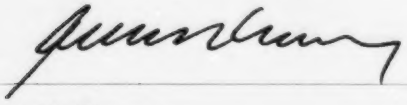
The Corporation's purpose is to provide Alberta local authorities with funds for capital projects at the lowest possible cost, consistent with the viability of the Corporation. During 1999, the Corporation saw an increase in new loan activity over 1998 of 48% or $76 million reflecting increased demand by municipalities to finance capital projects, and from schools and universities for student housing. The Corporation expects an increase in loan demand as shareholder estimates for 2000 show increases in financing requirements from estimates of $280 million in 1999 to over $343 million in 2000.

In October of 1999, in order to better meet the needs of our shareholders and to improve service, the Corporation sent a "Consultation Survey" to each shareholder to gauge opinions and levels of satisfaction with the Corporation's business practices. I would like to thank everyone who participated in our survey and hope the results sent to you in December provided you with a more comprehensive understanding of the issues facing the Corporation. The results of the Survey have been discussed by the Board of Directors and are being considered in the development of the Corporation's ongoing three-year Business Plan. Your responses identified our strengths of coaching/assistance and timeliness of loan approvals, and the Corporation will continue to maintain the level of these services. The Corporation also notes the concerns raised with the current prepayment policy and will continue to review its options in this regard. A more detailed description of this policy and the Corporation's comments on it are contained in this Annual Report. The Corporation is also considering the possibility of increasing the flexibility of its repayment structures and will be reviewing this matter during the current year together with increasing the profile of the Corporation. The Corporation found this a very useful exercise and intends to continue these surveys on a bi-annual basis.

The Annual Report provides the detail of the financing highlights and activities for 1999. I would like to comment briefly on the financial results. The Corporation recorded a net loss of $42.9 million for the year ended December 31, 1999. As in 1998, this loss is attributed to the difference between interest received on loans outstanding and the interest payments on debt. This loss was expected and budgeted for and reduced our retained earnings to $275.7 million. The Corporation is budgeting for further losses in 2000 and 2001 of $48 and $16 million respectively as interest expense continues to exceed interest income. However, with debt repayment of $892 million in 2000 and $331 million in 2001, income becomes positive in 2002 and beyond. The Corporation believes that these losses can be incurred without reducing the Corporation's viability or credit worthiness.

This past year has been a very active year for the Corporation and I wish to express my sincere appreciation to our Directors for their time and efforts on your behalf and to our staff for their efforts and efficient management of the Corporation.

It has been an honour and a privilege to serve as your President and Chairman for 1999.



A.J. McPherson
President and Chairman of the Board

Management Discussion and Analysis

The following provides management's analysis of the financial position and results of operations of the Alberta Municipal Financing Corporation for the year ended December 31, 1999.

Loans

During 1999, the AMFC loan portfolio decreased from $3,842 million to $3,657 million, a decrease of $185 million. New loans issued during the year totalled $236 million, an increase of $76 million from new loans issued in 1998 and loan repayments totalled $422 million. The Corporation is forecasting a decline in the loan portfolio as many local authorities try to reduce their overall level of debt and as the Province now provides funding for new school construction. Included in this review is a Schedule of Loans Outstanding at December 31, 1999, Analysis of New Loans Issued in 1999 by Jurisdiction and Purpose, and the Ten-Year Loan Review 1990 – 1999.

Annually, the Corporation requests the estimated borrowing requirements from each shareholder in order to help manage the Corporation's own financing requirements. The Shareholders' Forecast of Loan Requirements and actual borrowings are included for information.

Schedule of Loans Outstanding

as at December 31, 1999
(thousands of dollars)

	Principal Outstanding 31-Dec-98	2-Jan-99 to 31-Dec-99 New Loans Issued	2-Jan-99 to 31-Dec-99 Principal Repaid	Principal Outstanding 31-Dec-99
By Jurisdiction				
Cities:				
Airdrie	$ 9,904	$ 176	$ 1,129	$ 8,951
Calgary	1,152,112	53,613	108,981	1,096,744
Camrose	9,725	4,985	1,478	13,232
Edmonton	945,520	35,700	127,876	853,344
Fort Saskatchewan	4,552	449	777	4,224
Grande Prairie	19,793	—	3,970	15,823
Leduc	11,096	1,407	1,858	10,645
Lethbridge	32,355	14,750	5,188	41,917
Lloydminster	5,100	—	1,441	3,659
Medicine Hat	144,848	43,445	11,764	176,529
Red Deer	32,633	—	5,562	27,071
Spruce Grove	5,885	—	663	5,222
St. Albert	28,623	2,420	3,014	28,029
Wetaskiwin	9,666	571	1,259	8,978
Total Cities	2,411,812	157,516	274,960	2,294,368
Specialized Municipalities:				
Regional Municipality of Wood Buffalo	29,973	4,119	2,039	32,053
Strathcona County	29,245	16,107	4,595	40,757
M.D. of Mackenzie No. 23	840	—	76	764
Total Specialized Municipalities	60,058	20,226	6,710	73,574
Towns	208,707	22,926	25,546	206,087
Villages	17,449	1,118	2,733	15,834
Counties	13,412	8,865	1,338	20,939
Municipal districts	8,116	5,178	843	12,451
Improvement districts	953	—	150	803
Irrigation and water services	57,586	388	3,175	54,799
Hospitals & regional health authorities	12,054	—	797	11,257
Universities and colleges	21,104	17,975	1,273	37,806
School districts and divisions	1,031,145	2,294	104,477	928,962
Total	**$3,842,396**	**$236,486**	**$422,002**	**$3,656,880**
By Purpose				
Municipal - General	$2,110,484	$179,114	$237,548	$2,052,050
- Utility	659,841	36,853	76,717	619,977
Hospital	19,573	—	1,976	17,597
School	1,052,498	20,519	105,761	967,256
Total	**$3,842,396**	**$236,486**	**$422,002**	**$3,656,880**

Analysis of New Loans Issued
By jurisdiction and purpose for the year ended December 31, 1999
(thousands of dollars)

	Cities	Towns	Villages	Other	Total
Sewer and water	$ 31,493	$ 6,971	$ 463	$ 11,188	$ 50,115
Gas utilities	33,500	—	—	603	34,103
Roads and sidewalks	22,651	7,498	365	—	30,514
Landfill development	22,700	1,185	—	75	23,960
Municipal buildings	18,761	3,796	51	—	22,608
Schools	—	250	—	20,269	20,519
Equipment and machinery	17,275	1,379	154	185	18,993
Parks and recreation	13,866	229	—	—	14,095
Transit	9,000	—	—	—	9,000
Senior citizen lodges	2,750	1,000	—	2,380	6,130
Land	2,996	618	85	—	3,699
Electrical utilities	2,750	—	—	—	2,750
Total	**$177,742**	**$ 22,926**	**$ 1,118**	**$ 34,700**	**$236,486**

Shareholders' Forecast of Loan Requirements
(thousands of dollars)

	2000 Estimated	1999 Estimated	1999 Actual Loans
By Jurisdiction			
Cities	$ 198,400	$ 173,300	$ 157,516
Specialized municipalities	50,000	38,100	20,226
Towns	41,200	30,100	22,926
Villages	1,300	2,000	1,118
Counties, municipal and other districts	5,400	2,200	14,431
Hospitals and regional health authorities	—	20,000	—
Universities and colleges	42,400	2,000	17,975
School divisions and districts	4,300	5,300	2,294
Total	**$ 343,000**	**$ 280,000**	**$ 236,486**
By Purpose			
Municipal - General	$ 261,200	$ 186,200	$ 179,114
- Utility	35,100	66,500	36,853
Hospital	—	20,000	—
School	46,700	7,300	20,519
Total	**$ 343,000**	**$ 280,000**	**$ 236,486**

Ten-Year Loan Review 1990 - 1999
(thousands of dollars)

	1999	1998	1997
New loans issued during the year:			
By jurisdiction:			
Cities	$ 157,516	$ 115,738	$ 137,631
Specialized municipalities	20,226	10,233	5,906
Towns and villages	24,044	16,268	15,025
Counties, municipal and other districts	14,431	2,785	3,816
Hospitals and regional health authorities	—	10,000	—
Universities and colleges	17,975	—	—
School divisions and districts	2,294	5,080	2,246
Total	**$ 236,486**	**$ 160,104**	**$ 164,624**
Shareholders' Forecast of Loan Requirements	$ 280,000	$ 215,000	$ 185,000
By purpose:			
Municipal	$ 215,967	$ 144,774	$ 162,378
Hospital	—	10,000	—
School	20,519	5,330	2,246
Total	**$ 236,486**	**$ 160,104**	**$ 164,624**
Loans repaid during year	422,002	562,723	495,961
New debt issues sold during year	—	—	—
Outstanding long-term debt at December 31	3,882,555	4,176,761	4,403,406
Sinking fund investments at December 31	450,153	417,639	385,304
Retained earnings at December 31	275,656	318,602	333,505
Lending rate at December 31 *(based on 20-year term)*	6-1/2%	5-5/8%	6%

1996	1995	1994	1993	1992	1991	1990
$ 104,949	$ 49,156	$ 131,566	$ 248,746	$ 167,513	$ 266,712	$ 36,178
1,376	1,596	—	—	—	—	—
11,486	12,169	12,844	15,117	14,407	21,077	15,001
898	4,027	24,071	75,603	56,536	37,599	34,852
—	—	258	—	—	4,130	4,605
—	—	—	8,300	9,540	2,385	—
1,400	45,192	117,604	161,218	165,931	139,926	106,861
$ 120,109	**$ 112,140**	**$ 286,343**	**$ 508,984**	**$ 413,927**	**$ 471,829**	**$ 197,497**
$ 152,000	$ 190,000	$ 475,000	$ 600,000	$ 550,000	$ 565,000	$ 400,000
$ 118,709	$ 66,948	$ 147,066	$ 300,480	$ 196,942	$ 293,065	$ 63,657
—	—	258	2,330	2,926	4,130	4,942
1,400	45,192	139,019	206,174	214,059	174,634	128,898
$ 120,109	**$ 112,140**	**$ 286,343**	**$ 508,984**	**$ 413,927**	**$ 471,829**	**$ 197,497**
447,310	413,596	413,614	553,782	367,538	287,674	267,685
—	—	20,000	113,000	200,000	—	—
4,578,863	4,785,548	5,023,242	5,201,560	5,225,993	5,420,592	5,537,722
345,764	312,091	277,421	242,328	262,755	800,377	952,111
312,211	343,125	280,340	510,721	566,805	874,154	790,197
6-7/8%	8%	9-3/4%	8%	9-3/8%	10%	11-1/2%

Results of Operations The Corporation's interest expense on debt exceeded interest income on loans, including amortization and income from investments, by $70.8 million as debt exceeded loans by $223.7 million and the yield on the loan portfolio of 9.8% was lower than the yield of 12.1% on the debt. This net interest expense of $70.8 million was reduced by $28.0 million in sinking fund earnings and with other expenses of $0.3 million, resulted in a loss of $42.9 million for 1999.

The Corporation's goals are to provide local authorities with funding at the lowest possible cost and to maintain the lowest administrative and new loan costs compared to other municipal borrowing corporations. Included is a comparison of the Corporation's 1999 costs with the latest audited financial data of other provincial municipal borrowing corporations.

Municipal Financing Corporation Statistics - 1999

	Alberta	British Columbia	Nova Scotia	Newfoundland
New loans to shareholders *($ millions)*	236.0	391.5	104.7	54.7
Total loans outstanding *($ millions)*	3,656	1,988	663.7	336.1
Administrative expense				
($ thousands)	342	745	165.2	193
($ per $ thousand of new loans)	.09	.37	.25	.57
($ per $ million of loans)	1.45	1.90	1.58	3.53

Interest Rates

The Corporation's lending and interest rate policy is to provide shareholders with funds on a semi-monthly basis with interest rates set at the Province of Alberta's average borrowing rate rounded down to the nearest 1/8%. Overall, during 1999 interest rates increased for all loan terms with rates for shorter term loans increasing at a rate higher than for longer term loans. Rates for 3 and 5-year terms increased by 1-1/8% and 1-1/4% respectively, while rates for 20 and 25-year terms increased by 1% and 7/8% respectively. As in 1998, spreads between the 3 and 25-year terms narrowed even further during the year from 5/8% in January to 3/8% in December of 1999.

Comparison of Rates

Canada, Alberta and AMFC rates in 1999
5-year term

Canada, Alberta and AMFC rates in 1999
25-year term

Debt

The gross debt of the Corporation decreased by $294 million to $3,883 million. During the year, the Corporation received $422 million in loan repayments while issuing $236 million in new loans and repaying $219 million to the Canada Pension Plan Investment Fund, $5 million under the Promissory Note Program and $70 million to the Province of Alberta. Because of the Corporation's positive cash position, no new borrowing was required in 1999.

Sources of Capital
(thousands of dollars)

	Gross Outstanding December 31, 1999	Outstanding as a Percentage of Total
Canada Pension Plan Investment Fund	$ 3,097,555	79.8%
Province of Alberta	70,000	1.8%
Public	715,000	18.4%
Total	**$ 3,882,555**	**100.0%**

Risk Management

Effective risk management is central to the ability to provide a financially sound organization and includes identifying, assessing, managing and monitoring all forms of risk. The Corporation is primarily exposed to:

- Liquidity risk
- Market risk
- Operational risk and
- Credit risk

The General Manager of the Corporation is responsible for identifying risks and recommending the appropriate policies and framework. The Board of Directors reviews and approves the risk management policies and implements specific reporting procedures to enable them to monitor the adherence to these policies.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not have sufficient cash to meet its obligations as they become due and also meet the loan requirements of our local authorities.

The Corporation manages its liquidity risk by monitoring its cash flows on a daily basis and providing updated cash flow reports to the Board as required. Surplus funds are invested in short-term investments or the Consolidated Cash Investment Trust Fund. When required, the Corporation raises funds under a five-year Promissory Note Program or by direct borrowing in the Canadian market.

Market Risk

Market risk is the impact on the Corporation's income from changes in market factors such as interest rates and foreign exchange. The Corporation does not deal in other than Canadian currency, therefore there is no foreign exchange risk. The primary source of interest rate risk is repricing risk which arises when there is a mismatch between the maturity and repricing of interest bearing assets and liabilities. This repricing risk also results from the Corporation's willingness to allow for some prepayments on existing loans.

The prepayment policy was structured to protect the Corporation from the significant losses that would occur in accepting additional prepayments of high interest rate loans and relending these funds at

lower rates. The Corporation, on three separate occasions, has reduced the rates on higher interest rate loans to 12%. The Corporation does not have the ability to prepay or refinance its debt. The Corporation's prepayment policy is an integral part of its long-term financial planning. Changes to allow more prepayments with reduced penalties could reduce equity to a point below a level considered necessary for viability and credit purposes.

The Corporation identifies and monitors interest rate risk through the use of daily and annual cash flow analysis which are reported to and reviewed by the Board of Directors.

Operational Risk

Operational risk is the risk associated with a breakdown in internal controls, systems or procedural failures, human errors or malfeasance. These risks can never be fully eliminated but are minimized by establishing appropriate policies and sound internal controls through an appropriate segregation of duties, accountability and reporting practices.

These controls and policies are established by management and reviewed by the Board in addition to the review done by the Auditor General during the year end audit.

Year 2000

The year 2000 issue is a general term used to refer to implications and risks arising from the use of a 2 digit rather than a 4 digit number to record the year in data fields. This not only impacts the Corporation but local authorities as well.

The Corporation recognized its significance and addressed this issue. Although the change of date has occurred and no issues have arisen to date, it is not possible to conclude that all aspects of the year 2000 that may affect the Corporation or its shareholders have been fully resolved. The Corporation does not anticipate any further issues arising in 2000.

Credit Risk

Credit risk is the risk of loss due to borrowers failing to meet their obligations to AMFC. Historically, the Corporation has not been required to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Corporation has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

OFFICE OF THE AUDITOR GENERAL

AUDITOR'S REPORT

To the Shareholders of the Alberta Municipal Financing Corporation

I have audited the balance sheet of the Alberta Municipal Financing Corporation as at December 31, 1999 and the statements of loss and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flow for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine

FCA
Auditor General

Edmonton, Alberta
February 7, 2000

ALBERTA MUNICIPAL FINANCING CORPORATION

FINANCIAL REPORTING RESPONSIBILITY OF MANAGEMENT

Management of AMFC prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to generally accepted accounting principles and the requirements of the Alberta Municipal Financing Corporation Act.

Management maintains the necessary accounting and internal control systems designed to ensure the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use and the promotion of operational efficiency. The Board of Directors oversees management's responsibilities for financial reporting and internal control systems.

The Auditor General of Alberta is designated as the external auditor in the Alberta Municipal Financing Corporation Act. The Board of Directors reviewed these financial statements with the external auditor in detail before their approval.

FCA
General Manager/Treasurer

Edmonton, Alberta
February 7, 2000

Balance Sheet

as at December 31, 1999
(thousands of dollars)

	1999 Budget	1999 Actual	1998 Actual
Assets:			
Cash (Note 3)	$ 102,618	$ 76,641	$ 246,052
Short-term investments	—	—	39,348
Accrued interest receivable	149,683	147,140	158,884
Loans to local authorities (Note 4)	3,536,977	3,560,762	3,716,178
Sinking fund investments (Note 5 and Schedule 1)	450,139	450,153	417,639
	$ 4,239,417	$ 4,234,696	$ 4,578,101
Liabilities and Shareholders' Equity:			
Liabilities:			
Accrued interest payable	$ 78,224	$ 78,324	$ 85,217
Long-term debt (Note 6 and Schedule 2)	3,880,652	3,880,652	4,174,218
	3,958,876	3,958,976	4,259,435
Shareholders' equity:			
Share capital (Note 7):			
Authorized: 7,500 common shares, par value $10 per share			
Issued and fully paid:			
6,368 shares (1998 - 6,367)	64	64	64
Retained earnings	280,477	275,656	318,602
	280,541	275,720	318,666
	$ 4,239,417	$ 4,234,696	$ 4,578,101

A.J. McPherson
President & Chairman of the Board

G.H. Sherwin, CA
Vice-President

The accompanying notes are part of these financial statements.

Statement of Loss and Retained Earnings

For the year ended December 31, 1999
(thousands of dollars)

	1999		1998
	Budget	Actual	Actual
Interest Income:			
Loans	$ 380,692	$ 377,028	$ 417,622
Amortization of loan discounts	30,100	30,100	36,133
Deposits and short-term investments	12,900	12,507	12,378
	423,692	419,635	466,133
Interest Expense:			
Debt	489,793	489,793	510,390
Amortization of long-term debt discounts	640	640	818
	490,433	490,433	511,208
Net interest expense	(66,741)	(70,798)	(45,075)
Other Income:			
Investment income on sinking fund	28,000	28,014	27,835
Loan prepayment fees	1,000	180	2,649
	29,000	28,194	30,484
Net interest expense and other income	(37,741)	(42,604)	(14,591)
Non-Interest Expense:			
Administration and office expenses (Note 8)	321	284	256
Debt issue and service expenses	43	39	38
Directors' and officers' fees and expenses (Note 8)	20	19	18
	384	342	312
Net loss	(38,125)	(42,946)	(14,903)
Retained earnings, beginning of year	318,602	318,602	333,505
Retained earnings, end of year	$ 280,477	$ 275,656	$ 318,602

Statement of Cash Flow

For the year ended December 31, 1999
(thousands of dollars)

	1999		1998
	Budget	Actual	Actual
Operating Activities:			
Interest received on loans	$ 389,893	$ 388,772	$ 435,609
Interest received on investments/sinking fund	13,104	12,537	12,417
Loan prepayment fees	1,000	180	2,649
Administration and office expenses	(384)	(342)	(312)
Interest paid on debt	(496,786)	(496,686)	(516,177)
Cash flows used in operating activities	(93,173)	(95,539)	(65,814)
Investing Activities:			
Sale (purchase) of short-term investments	39,348	39,348	(39,348)
Loan repayments	429,301	422,002	562,723
New loans issued	(220,000)	(236,486)	(160,104)
Sinking fund investments	(4,704)	(4,530)	(4,539)
Cash flows from investing activities	243,945	220,334	358,732
Financing Activity:			
Debt repayments	(294,206)	(294,206)	(226,645)
Cash flows used in financing activity	(294,206)	(294,206)	(226,645)
Net (decrease) increase in cash	(143,434)	(169,411)	66,273
Cash at beginning of year	246,052	246,052	179,779
Cash at end of year	$ 102,618	$ 76,641	$ 246,052

Notes to the Financial Statements

December 31, 1999

1. **Authority**

   The Alberta Municipal Financing Corporation operates under the authority of the Alberta Municipal Financing Corporation Act, Chapter A-33, Revised Statutes of Alberta 1980, as amended.

2. **Significant Accounting Policies and Reporting Practices**

   a) **Short-term Investments**

   Short-term investments are recorded at cost or amortized cost, adjusted to recognize other than temporary losses in the underlying values. All securities held were purchased with the intention to hold them to maturity. Gains and losses on disposal of short-term investments are included in the year of disposal.

   b) **Sinking Fund Investments**

   Sinking fund investments are recorded at cost. The cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

   Realized gains and losses on disposals of sinking fund investments are included in the determination of investment income. The cost of disposals is determined on the average cost basis.

   Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

   Investment income on sinking fund investments accrues to the sinking fund.

   c) **Long-term Debt**

   Long-term debt discounts, including underwriting commission, arising on the issue of long-term debt are deferred and amortized over the term of the long-term debt.

   Long-term debt is recorded net of unamortized discounts.

   Public long-term debt issue expenses are charged against income as they are incurred.

   d) **Discounts on Loans to Local Authorities**

   Discounts are recorded for reductions of interest rates given on loans to local authorities with interest rates above a certain level and are amortized to income over the term of these loans. Annual amortization is the change in the present value of the remaining interest rate reduction.

3. **Cash**

   Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Interest is earned on the Fund's daily cash balance at the average rate of interest earned by CCITF, which varies depending on prevailing market interest rates.

4. Loans to Local Authorities

	1999	1998
	(thousands of dollars)	
Loans to local authorities	$3,656,880	$3,842,396
Less: Unamortized discounts	96,118	126,218
	$3,560,762	$3,716,178

5. Sinking Fund Investments

Sinking fund investments relate to the $450,000,000 December 15, 2002 public issue of long-term debt.

6. Long-term Debt

a) The long-term debt of the Corporation is fully guaranteed by the Province of Alberta.

b) Long-term debt amounting to $3,097,555,000 (1998 - $3,316,761,000) held by the Canada Pension Plan Investment Fund is redeemable at the option of the Minister of Finance of Canada by giving six months notice in writing and observing the other redemption provisions of the long-term debt agreement.

c) Sinking fund and long-term debt redemption requirements during each of the next five years are as follows:

	Sinking Fund	Long-term Debt Redemption	Total
	(thousands of dollars)		
2000	$ 4,500	$ 442,367	$ 446,867
2001	4,500	331,739	336,239
2002	4,500	724,735	729,235
2003	—	441,023	441,023
2004	—	338,491	338,491
	$ 13,500	$ 2,278,355	$ 2,291,855

7. Share Capital

Particulars of share capital are summarized hereunder:

Class	Restricted to	Number of Shares Authorized	Number of Shares Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$45,000
B	Municipalities and hospitals	1,000	848	8,480
C	Cities	750	577	5,770
D	Towns and villages	750	311	3,110
E	Schools, universities and colleges	500	132	1,320
		7,500	6,368	$63,680

During the year, 2 Class B shares were issued and 1 Class D share was cancelled at $10.00 each.

8. Directors' Fees and Related Party Transactions

Directors' fees paid by the Corporation are as follows:

	1999		1998	
	Number of Individuals	Total	Number of Individuals	Total
Chairman of the Board	1	$ 1,500	1	$ 1,400
Board Members	8	$ 8,700	8	$ 8,100

Two of the Board members are employees of the Province of Alberta and do not receive compensation from the Corporation.

The Corporation has no employees. Administration and office expenses of $243,679 (1998 - $219,945) were paid to the controlling shareholder, Province of Alberta, at prices which approximate market.

9. Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on the Corporation's earnings and the fair value of the financial instruments when maturities of its financial assets are not matched with the maturities of its financial debt. The following table shows the maturities and effective rates of the Corporation's financial assets and liabilities:

	As at December 31, 1999 (thousands of dollars)					
Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
Assets						
Cash	$ 76,641	$	$	$	$	$ 76,641
Effective Rate	5.1%					
Accrued Interest Receivable	147,140					147,140
Loans	34,921	122,571	793,191	1,537,986	1,168,211	3,656,880(i)
Effective Rate	11.3%	10.5%	10.2%	10.6%	8.4%	9.8%
Sinking Fund			450,153			450,153
Effective Rate			6.7%			
Total	$ 258,702	$ 122,571	$ 1,243,344	$ 1,537,986	$ 1,168,211	$ 4,330,814
Liabilities						
Accrued Interest Payable	$ 78,324	$	$	$	$	$ 78,324
Debt	442,367	331,739	1,502,346	1,604,200		3,880,652
Effective Rate	12.5%	14.7%	13.7%	10.2%		12.1%
Total	$ 520,691	$ 331,739	$ 1,502,346	$ 1,604,200	$	$ 3,958,976
Net Gap	$ (261,989)	$ (209,168)	$ (259,002)	$ (66,214)	$ 1,168,211	$ 371,838

(i) This total is not reduced by unamortized discount of $96,118.

The Corporation manages on a continuous basis its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on the Corporation's surplus position. Based on the maturity of its current outstanding loans and debt, the Corporation is able to repay its debt from cash flows with borrowing of $30 million in 2000 and no additional borrowing until 2004.

10. Fair Value of Financial Instruments

The amounts set out in the table represent the fair value of the Corporation's financial instruments based on the following assumptions and valuation methods.

Fair value represents the Corporation's estimate of amounts for cash, short-term investments, sinking fund investments and debt that could be exchanged with unrelated parties who are interested in acquiring these instruments. For loans which lack an available trading market, fair value is based on estimates using net present value techniques which reflect the Corporation's lending rates.

The fair value of accrued interest receivable and payable approximate their carrying value.

Interest rate sensitivity is the main cause of changes in the fair value of the Corporation's financial instruments.

	1999		1998	
	Fair Value	Book Value	Fair Value	Book Value
	(thousands of dollars)			
Assets				
Cash	$ 76,641	$ 76,641	$ 246,052	$ 246,052
Short-term investments	—	—	39,562	39,348
Sinking fund investments	452,008	450,153	429,454	417,639
Loans	4,188,864	3,560,762	4,676,713	3,716,178
Liabilities				
Debt	4,544,060	3,880,652	5,291,530	4,174,218

11. Uncertainty Due to the Year 2000 Issue

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

12. Budget

The 1999 budget was approved by the Board of Directors on February 19, 1999.

Schedule of Sinking Fund Investments

As at December 31, 1999
(thousands of dollars)

Schedule 1

	Book Value	Market Value
Investments		
Bonds and debentures:		
Corporate	$ 51,657	$ 51,435
Bond coupons and residuals:		
Government of Canada, direct	38,370	38,492
Provincial, direct:		
Alberta Municipal Financing Corporation	59,014	59,735
Bond coupons and residuals - short-term:		
Government of Canada, direct	119,681	119,540
Provincial, direct:		
Alberta Municipal Financing Corporation	163,704	164,949
Other	17,715	17,845
Total	450,141	451,996
Cash	12	12
Total 1999	$ 450,153	$ 452,008
Total 1998	$ 417,639	$ 429,454

Schedule of Long-Term Debt

As at December 31, 1999
(thousands of dollars)

Schedule 2

Date of Issue	Maturity Date	Interest Rate	Principal Outstanding
Province of Alberta			
Mar 03,1980	Mar 03, 2000	13.45	35,000
Aug 15,1980	Aug 15, 2000	13.20	35,000
Total			70,000
Canada Pension Plan Investment Fund (Note 6(b))			
Nov 14,1980	Oct 01,2000	12.35	222,367
Sep 15,1981	Aug 01,2001	14.18	216,739
Jun 01,1982	Jun 01,2002	15.75	274,735
Apr 05,1983	Apr 05,2003	13.82	209,284
Dec 01,1983	Dec 01,2003	11.50	231,739
Dec 03,1984	Dec 03,2004	13.25	338,491
Nov 01,1985	Nov 01,2005	11.66	283,604
Nov 03,1986	Nov 03,2006	9.85	395,396
Nov 02,1987	Nov 02,2007	9.66	335,383
Oct 03,1988	Oct 03,2008	10.04	259,294
Oct 02,1989	Oct 02,2009	9.99	291,414
Nov 01,1989	Nov 01,2009	9.62	32,457
Dec 01,1989	Dec 01,2009	9.26	6,652
Total			3,097,555
Public			
Dec 17,1979	Dec 15, 2000	11.85	$ 70,000
Jul 02,1980	Jul 03, 2000	11.75	30,000
Dec 01,1980	Dec 01, 2000	13.65	50,000
Mar 02,1981	Mar 02, 2001	14.10	30,000
Jun 15,1981	Jun 15, 2001	16.25	85,000
Jan 18,1983	*Dec 15, 2002	12.25	450,000
Total			715,000
			3,882,555
Less: Unamortized long-term debt discount			1,903
Total long-term debt			$ 3,880,652

* AMFC has the right with six months notice to redeem the debentures of this issue in whole but not in part on December 15, 2000 or any interest payment date thereafter prior to maturity.